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SUBJECT: EUROPEAN MONETARY ARRANGEMENTS: THE EC MONETARY
COMMITTEE LAYS OUT SOME OPTIONS

REF: BRUSSELS 11631

1. SUMMARY: THE EC MONETARY COMMITTEE REPORT ON SCHEMES
TO INCREASE MONETARY COHESION WITHIN THE COMMUNITY
PRESENTS THREE OPTIONS: WAYS TO BRINGBACK FLOATING
MEMBER STATE CURRENCIES WITHIN A POSSIBLY MODIFIED SNAKE;
AN EUA OR EFFECTIVE RATE-AIMED SYSTEM WITH INTERVENTION
OBLIGATIONS; OR A SIMILAR SYSTEM WITHOUT INTERVENTION
OBLIGATIONS. INCREASED CREDIT ARRANGEMENTS AND POSSIBLE
EXPANSION IN THE ROLE OF THE EUA ARE ALSO CONSIDERED. THE
JUNE 19 FINANCE COUNCIL WILL TAKE UP THE REPORT, BUT IS
NOT EXPECTED TO ACHIEVE MUCH FURTHER PROGRESS TOWARDS A
POLITICAL DECISION. END SUMMARY.

2. THE EC MONETARY COMMITTEE THIS WEEK WAS PUTTING THE
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FINAL TOUCHES ON A REPORT TO BE TRANSMITTED TO THE FINANCE
COUNCIL OF JUNE 19 OUTLINING SOME ALTERNATIVE SCHEMES FOR
CLOSER INTRA-EUROPEAN EXCHANGE-RATE RELATIONSHIPS. THE
FOLLOWING ACCOUNT IS BASED ON BRIEFINGS FROM SEVERAL
COMMISSION SOURCES.

3. THE MONETARY COMMITTEE REPORT IS IN RESPONSE TO A

COUNCIL REQUEST FOR TECHNICAL EXPLORATION OF OPTIONS WHICH MIGHT BE CONSIDERED AS A FOLLOW-UP TO THE EUROPEAN SUMMIT DISCUSSIONS IN COPENHAGEN, AND IN THE CONTEXT OF THE GENERAL DESIRE TO PROGRESS TOWARDS ECONOMIC AND MONETARY UNION. ALTHOUGH DISCUSSIONS IN THE MONETARY COMMITTEE HAVE OCCASIONALLY GONE INTO TECHNICAL DETAILS OF PARTICULAR ASPECTS OF THIS OR THAT SCHEME, THE COMMITTEE FELT THAT A FULL TECHNICAL ANALYSIS OF THE VARIOUS POSSIBLE SCHEMES WAS IMPRACTICAL. THE REPORT, THEREFORE, SKETCHES OUT THE PRINCIPAL CHARACTERISTICS OF THREE BASIC OPTIONS FOR THE INTRA-COMMUNITY EXCHANGE-RATE REGIME WITH SOME SUB-VARIANTS, AND DISCUSSES SOME OF THE ISSUES INVOLVED, INCLUDING WHAT MIGHT BE APPROPRIATE CREDIT AND SETTLEMENT ARRANGEMENTS TO ACCOMPANY EACH OPTION. IT ASKS FOR ADDITIONAL POLITICAL GUIDANCE IN NARROWING DOWN THE OPTIONS SO THAT TECHNICAL WORK CAN PROCEED FURTHER.

4. WE DO NOT HAVE A COMPLETE ACCOUNT OF THE PARALLEL REPORT OF THE CENTRAL BANK GOVERNORS, ALSO FINALIZED THIS WEEK. GENERALLY IT HAS BEEN CHARACTERIZED AS TECHNICALLY A GOOD DEAL LESS CONCRETE AND MUCH LESS POSITIVE IN TONE THAN THE MONETARY COMMITTEE REPORT. REPORTEDLY IT WAS ORIGINALLY DRAFTED BY JANSON (BELGIAN NATIONAL BANK) IN A VERY POSITIVE TONE, BUT THIS WAS REVERSED UNDER PRESSURE FROM OTHER PARTICIPANTS. THE REPORT NOW EMPHASIZES THAT BEFORE ANY TIGHTER EXCHANGE-RATE SCHEME COULD WORK, IT

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WOULD BE NECESSARY TO HAVE A LARGE INCREASE IN POLITICAL WILL TO HARMONIZE INTERNAL POLICIES IN MEMBER STATES. THE REPORT FOCUSES ON TWO OPTIONS: THE FIRST BEING THE VAN YPERSELE-DE STRYCKER PROPOSAL THAT NON-SNAKE CURRENCIES ESTABLISH TARGET RATES DEFINED IN TERMS OF A SNAKE-DOLLAR BASKET; THE SECOND A VERY LOOSE SCHEME OF TARGET ZONES WHICH WOULD SERVE TO TRIGGER CONSULTATIONS ONLY, ALONG THE LINES OF A COMMISSION PROPOSAL ADVANCED BEFORE COPENHAGEN. (ACCORDING TO OUR SOURCES THE FORMER OPTION IS NOW "DEAD," WHILE THE LATTER HAS BEEN OVERTAKEN BY OPTION C MENTIONED BELOW.) VERY LITTLE ATTENTION IS GIVEN TO THE POSSIBLE EXPANSION OF THE ROLE OF THE EUA. OUR SOURCES SAY THIS REFLECTS SUBSTANTIAL CENTRAL BANK HOSTILITY TO THIS IDEA, ALTHOUGH RECENT STATEMENTS BY EMMINGER SUGGEST THIS MAY BE CHANGING IN THE BUNDESBANK. ALL OUR SOURCES AGREE THAT THE MONETARY COMMITTEE REPORT IS THE MORE SIGNIFICANT OF THE TWO.

EXCHANGE-RATE REGIMES

5. THE THREE BASIC OPTIONS FOR EXCHANGE-RATE RELATIONSHIPS PRESENTED IN THE MONETARY COMMITTEE REPORT ARE: (A) A

RETURN TO THE SNAKE BY THE THREE NON-SNAKE MEMBER STATES,
WITH PROVISION FOR TRANSITIONAL ARRANGEMENTS AND/OR
PERMANENT MODIFICATIONS IN THE SNAKE ARRANGEMENT TO
INCREASE FLEXIBILITY; (B) RATE RELATIONSHIPS DEFINED IN
TERMS OF A WEIGHTED AVERAGE OF CURRENCIES, EITHER THE EUA
OR A BROADER SELECTION OF MAJOR CURRENCIES, WITH
OBLIGATIONS TO DEFEND MARGINS THROUGH INTERVENTION;
(C) RATE RELATIONSHIPS DEFINED AS IN B, BUT WITHOUT INTER-
VENTION OBLIGATIONS. BOTH B AND C COULD CO-EXIST WITH
THE SNAKE, OR (LESS LIKELY) REPLACE IT.
6. TO EASE THE PASSAGE FOR NEW ENTRANTS TO THE SNAKE UNDER
OPTION A, A TRANSITION PERIOD OF PERHAPS 6 - 9 MONTHS IS

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CONSIDERED WITH WIDER MARGINS FOR THE NEW ENTRANTS, AND A
MORE FLEXIBLE PROCESS FOR ADJUSTING CENTRAL RATES (BOTH
LEFT VAGUE). AN ALTERNATIVE WOULD BE TO MAKE PERMANENT
CHANGES IN THE NATURE OF THE SNAKE TO PROVIDE MORE
FLEXIBILITY FOR THE NEWCOMERS, SOME REFLECTING ELEMENTS
OF THE FOURCADE PROPOSALS. AGAIN, WIDER MARGINS FOR SOME
CURRENCIES (A "BOA") IS ONE POSSIBILITY; ANOTHER IS THE
RIGHT TO UNILATERALLY CHANGE CENTRAL RATES BY SMALL
INCREMENTS, THIS RIGHT SUBJECT TO AN OVERALL LIMIT FOR
CUMULATIVE CHANGES OVER 12-MONTH PERIODS. THE FRENCH
PROPOSE PROVISION FOR TEMPORARY ABSENCES FROM THE SNAKE
DURING PERIODS OF DISTURBANCE; ANOTHER PROPOSAL TO MODIFY
THE SNAKE WOULD PROVIDE FOR A JOINT "COMMON ATTITUDE"
TOWARDS THIRD COUNTRY CURRENCIES, PARTICULARLY THE DOLLAR

(DESIRED PARTICULARLY BY THE FRENCH AND SOME SMALLER COUNTRIES). MOST SOURCES HERE DO NOT BELIEVE THAT AGREEMENT TO OPTION A IS A PRACTICAL POSSIBILITY.

7. UNDER OPTION B, MEMBER STATES WOULD COOPERATIVELY ESTABLISH TARGET RATES IN TERMS OF A WEIGHTED AVERAGE OF CURRENCIES, AND WOULD BE REQUIRED TO INTERVENE TO KEEP CONFIDENTIAL

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THEIR CURRENCIES WITHIN CERTAIN MARGINS AROUND THESE TARGET RATES. (WIDTH OF MARGINS ARE NOT SPECIFIED, BUT ORAL DISCUSSIONS HAVE MENTIONED MARGINS OF 2-3 PERCENT ON EITHER SIDE.)

8. TWO VARIANTS OF THIS OPTION EXIST. UNDER THE FIRST, A BROADLY DEFINED EFFECTIVE RATE WOULD BE USED, INCLUDING CURRENCIES OF NON-EC COUNTRIES. THE SECOND VARIANT WOULD USE THE EUROPEAN UNIT OF ACCOUNT. (THE EUA IS A WEIGHTED AVERAGE OF COMMUNITY CURRENCIES CURRENTLY IN USE IN THE BUDGET AND CERTAIN OTHER COMMUNITY FUNCTIONS. ITS VALUE IS CALCULATED DAILY ON THE BASIS OF MARKET RATES, SIMILARLY TO THE SDR.)

9. THE CHOICE BETWEEN THESE TWO VARIANTS OF OPTION B IS DISCUSSED BRIEFLY IN TERMS OF THE WAY IN WHICH RELATIONSHIPS WITH THIRD COUNTRY CURRENCIES ARE HANDLED. SOME MEMBER STATES, IN PARTICULAR THE FRENCH AND SMALLER MEMBER STATES, WOULD LIKE AN EXPLICIT COMMUNITY "DOLLAR POLICY" TO BE ESTABLISHED, AND THERE SEEMS TO BE LITTLE STRONG OPPOSITION TO THE IDEA, ALTHOUGH THE GERMANS ARE NOT ENTHUSIASTIC. THE FIRST VARIANT WOULD IMBED THIS DOLLAR POLICY IN THE CHOICE OF INDIVIDUAL EFFECTIVE RATE TARGETS; THE SECOND VARIANT WOULD FOCUS ON INTRA-COMMUNITY RELATIONSHIPS, WHILE LEAVING OPEN THE POSSIBILITY OF DEVELOPING COOPERATIVELY POLICIES ON THE RELATIONSHIP BETWEEN THE EUA AND OTHER CURRENCIES (IN PARTICULAR, THE DOLLAR). THE SECOND VARIANT MIGHT ALSO TEND TO BE COMBINED WITH A POLICY TO INTERVENE TO A GREATER EXTENT IN COMMUNITY CURRENCIES RATHER THAN WITH DOLLARS, ALTHOUGH THERE IS CONSIDERABLE DIFFERENCE OF OPINION ON THIS QUESTION. THE IDEA OF SEPARATING INTRA-EUROPEAN FROM BROADER EXCHANGE-RATE RELATIONSHIPS BY USING THE EUA AS A PIVOT HAS BEEN PICKING UP SUPPORT IN THE COMMISSION AND ELSEWHERE, INCLUDING THE FRENCH AND COMMITTEE CHAIRMAN VAN YPERSELE
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(SEE REFTEL).

10. IT IS POINTED OUT THAT OPTION B COULD REPLACE, OR, MORE LIKELY "CO-EXIST" WITH, THE PRESENT SNAKE ARRANGEMENT;

THE FORM OF THIS CO-EXISTENCE IS NOT SPELLED OUT IN THE REPORT, BUT THE LEADING CANDIDATE APPEARS TO BE A PROPOSAL WHICH WOULD HAVE SUCH TARGET RATES ESTABLISHED ONLY FOR THE FOUR MAJOR CURRENCIES. THE CURRENCIES OF THE SMALLER CONTINENTAL MEMBER STATES WOULD BE LINKED TO THE ARRANGEMENT THROUGH THEIR SNAKE RELATIONSHIP WITH THE DM.

11. OPTION C WOULD BE SIMILAR TO OPTION B (SAME VARIANTS) EXCEPT THAT THERE WOULD BE NO REQUIREMENT TO INTERVENE TO KEEP RATES WITHIN MARGINS. INSTEAD, RULES OF "GOOD BEHAVIOR" WOULD BE ESTABLISHED TO PROHIBIT AGGRESSIVE POLICY TO MOVE RATES OUTSIDE TARGET ZONES; COUNTRIES MIGHT AGREE TO USE THEIR "BEST ENDEAVORS" TO KEEP RATES WITHIN ZONES; AND CONSULTATIONS MIGHT BE MANDATED WHEN RATES MOVED OUTSIDE ZONES. THIS WEAKER VERSION COULD BE ENVISAGED AS A FIRST STEP TOWARDS A MORE AMBITIOUS ARRANGEMENT (E.G., OPTION B), AS CONDITIONS PERMITTED. AGAIN, A "DOLLAR POLICY" MIGHT BE ESTABLISHED AFTER APPROPRIATE CONSULTATIONS.

FINANCING AND SETTLEMENT ARRANGEMENTS

12. IT IS CLEAR THAT FINANCING AND SETTLEMENT ARRANGEMENTS WOULD NEED TO CORRESPOND TO THE EXCHANGE-RATE REGIME CHOSEN, AND IN PARTICULAR TO INTERVENTION OBLIGATIONS, BUT DISCUSSION OF THIS MATTER IS IN GENERAL TERMS ONLY. OPTION A WOULD OF COURSE BRING ACCESS FOR NEW ENTRANTS TO PRESENT SNAKE FINANCING ARRANGEMENTS IN THE EUROPEAN MONETARY COOPERATION FUND (EMCF). (THE EMCF PROVIDES FOR AUTOMATIC ACCESS TO OTHER PARTICIPANTS' CURRENCIES UNLIMITED IN AMOUNT, BUT LIMITED IN DURATION TO 1 - 2 MONTHS, WITH EXTENSIONS IN TIME UP TO 6 MONTHS FOR LIMITED AMOUNTS.)

13. UNDER OPTION B, PROVISIONS WOULD ALSO NEED TO BE MADE FOR FINANCING OBLIGATORY INTERVENTION, PROBABLY THROUGH ACCESS TO THE EMCF FOR NON-SNAKE MEMBERS. UNDER BOTH

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OPTIONS A AND B, CONSIDERATION MIGHT BE GIVEN TO FURTHER EXPANSION OF FINANCING ARRANGEMENTS. FOR EXAMPLE (ALTHOUGH THIS MAY NOT BE MENTIONED IN THE REPORT), THERE MIGHT BE AN EXTENSION OF THE DURATION OF THE UNLIMITED AMOUNT FINANCING AVAILABLE THROUGH THE EMCF, AN EXPANSION OF CREDIT AVAILABLE THROUGH THE COMMUNITY'S SHORT-TERM MONETARY SUPPORT MECHANISM, AND POSSIBLY EXPANSION OF THE COMMUNITY JOINT BORROWING FACILITY.

14. THERE IS DISAGREEMENT ABOUT WHETHER AN ARRANGEMENT AS LOOSE AS OPTION C, WITHOUT OBLIGATORY INTERVENTION, WOULD ALSO NEED TO BE BUTTRESSED BY ACCESS TO THE EMCF, OR EXPANSION OF CREDIT MECHANISMS. IN GENERAL, THE FRENCH AND SOME OTHER COUNTRIES HAVE SUGGESTED THAT THIS WOULD BE APPROPRIATE; THE GERMANS HAVE OPPOSED EXPANSION OF CREDIT ACCESS WITHOUT TIGHTER OBLIGATIONS.

EUA ROLE EXPANSION

15. THERE IS ONLY A BRIEF DISCUSSION IN THE REPORT OF THE POSSIBLE EXPANSION OF THE ROLE OF THE EUA IN CONNECTION
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WITH SETTLEMENT AND FINANCING ARRANGEMENTS. IN THE LEAST AMBITIOUS OF THE VARIOUS POSSIBILITIES, THE EUA WOULD SERVE AS A UNIT OF ACCOUNT FOR SETTLEMENTS WITHIN THE EMCF, REPLACING THE PRESENT MONETARY UNIT OF ACCOUNT WHICH IS BASED ON SNAKE CENTRAL RATES. THIS WOULD BE OBLIGATORY IF NON-SNAKE CURRENCIES WERE TO GAIN ACCESS TO THE EMCF.

16. MORE AMBITIOUS PROPOSALS MENTIONED WOULD HAVE MEMBER STATES TRANSFER TO THE EMCF AMOUNTS OF THEIR PRESENT GOLD AND/OR DOLLAR RESERVES IN EXCHANGE FOR CREDITS DENOMINATED IN EUA, WHICH COULD BE USED TO SETTLE CLAIMS ARISING OUT OF INTERVENTION OPERATIONS. (THIS IS SOMETIMES CALLED "RESERVE POOLING" DESPITE THE FACT THAT MONETARY

AUTHORITIES OF INDIVIDUAL MEMBER STATES WOULD NOT GIVE UP OWNERSHIP OF RESERVES TO A CENTRAL AUTHORITY.) PARTICIPANTS IN MONETARY COMMITTEE DISCUSSION HAVE EXPRESSED INTEREST IN THIS POSSIBILITY PRIMARILY AS A MEANS OF MOBILIZING THEIR GOLD RESERVES. THERE IS CONSIDERABLY LESS INTEREST IN THE SUBSTITUTION OF EUA FOR DOLLARS. (SINCE DOLLARS WOULD CONTINUE TO BE HELD BY THE EMCF, THERE WOULD BE NO REDUCTION OF EXCHANGE RISKS ON DOLLAR HOLDINGS FOR THE COMMUNITY AS A WHOLE, ALTHOUGH POSSIBLY SOME REDISTRIBUTION AMONG MEMBER STATES.) MORE AMBITIOUS POSSIBILITIES MIGHT INCLUDE MOBILIZING THE RESERVES "POOLED" FOR BALANCE OF PAYMENTS LENDING OPERATIONS. BUT THE VARIOUS POSSIBILITIES ARE NOT SPELLED OUT IN THE REPORT, AND, IN FACT, VERY LITTLE PROGRESS HAS BEEN MADE IN ANALYZING THE POSSIBLE VARIANTS WITHIN THE COMMITTEE.

17. THE POSSIBILITY OF EXCHANGING COUNTRIES' OWN CURRENCIES FOR EUA ISSUED BY THE EMCF IS MENTIONED, BUT
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THE IMPLICATION OF THIS IN TERMS OF THE RESULTANT EXPANSION OF INTERNATIONAL LIQUIDITY WOULD NEED TO BE STUDIED.

18. NOT MENTIONED IN THE REPORT ARE IDEAS WIDELY DISCUSSED BUT NOT STUDIED IN THE MONETARY COMMITTEE WHICH WOULD INVOLVE DEVELOPING THE ROLE OF THE EUA IN THE PRIVATE SECTOR. ONE LEADING IDEA, BEING ACTIVELY PROMOTED BY PROFESSOR ROBERT TRIFFEN, IS TO ENCOURAGE THE ESTABLISHMENT OF EUA-DENOMINATED DEPOSITS AND LOANS IN THE PRIVATE SECTOR, I.E. TRANSFORM THE EUA INTO A PRIVATELY HELD "PARALLEL CURRENCY." EUA DEPOSITS WOULD BE CURRENTLY POSSIBLE IN MOST MEMBER STATES, ALTHOUGH SUBJECT TO EXCHANGE CONTROLS WHICH MIGHT RESTRICT THEIR USE TO NON-RESIDENT OR OFFSHORE ACCOUNTS. SUCH A DEVELOPMENT COULD EVENTUALLY PROVIDE THE BASIS FOR CONDUCTING COMMUNITY EXCHANGE MARKET INTERVENTION OPERATIONS IN EUA, AND IN THE LONG RUN COULD PROVIDE A TRANSITION TO A SINGLE COMMON EUROPEAN CURRENCY. THIS IDEA GOES WELL BEYOND THE IDEAS BEING PRESENTED IN THIS REPORT BY THE MONETARY COMMITTEE FOR POSSIBLE IMPLEMENTATION IN THE NEAR TERM. NEVERTHELESS, IT IS NOT INCONCEIVABLE THAT A POLITICAL DECISION TO ENCOURAGE A EUA PARALLEL CURRENCY MIGHT BE FORTHCOMING, AND RECENT POSITIVE STATEMENTS BY GERMAN OFFICIALS HAVE ENCOURAGED SOME COMMISSION OFFICIALS TO HOPE FOR SUCH A DEVELOPMENT.

19. A FURTHER DIMENSION OF THE CHOICES MENTIONED IN THE REPORT, BUT NOT DISCUSSED AT ALL EXTENSIVELY, IS THE QUESTION OF THE EXTENT TO WHICH INTERVENTION IN EUROPEAN

CURRENCIES SHOULD REPLACE INTERVENTION IN DOLLARS. (AT THE PRESENT TIME INTERVENTION IN PARTICIPANTS' CURRENCIES IS REQUIRED AT THE EXTREMES OF THE SNAKE MARGINS, BUT DOLLAR INTERVENTION WITHIN THE MARGINS IS COMMON, AND INTERVENTION BY FLOATERS IS TYPICALLY IN DOLLARS.) THERE IS AGREEMENT THAT INCONSISTENT INTERVENTION IN DOLLARS (SALES FOR WEAK CURRENCIES, PURCHASES FOR STRONG) SHOULD BE CONFIDENTIAL

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ELIMINATED, AS WELL AS A GENERAL CONSENSUS THAT OTHER DOLLAR INTERVENTION WHICH CREATES UNWANTED (USUALLY UPWARD) PRESSURE ON OTHER EUROPEAN CURRENCIES SHOULD BE REDUCED. HOWEVER, THERE IS NO AGREEMENT TO COMPLETELY ELIMINATE DOLLAR INTERVENTION. EUA-PIVOTED OPTION B MIGHT WELL REQUIRE INTERVENTION IN PARTICIPANTS' CURRENCIES AT MARGINS SIMILARLY TO PRESENT SNAKE RULES.

20. ANOTHER POINT OF INTEREST IN THE REPORT IS THAT THE IDEA OF ESTABLISHING WITHIN A COMMUNITY FRAMEWORK MONETARY GROWTH TARGETS CONSISTENT WITH EXCHANGE-RATE AIMS IS GIVEN POSITIVE MENTION IN THE GENERAL DISCUSSION OF THE NEED TO

IMPROVE CONVERGENCE OF MEMBER STATES' INTERNAL DEMAND MANAGEMENT POLICIES. COMMISSION SOURCES SUGGEST THIS IS A SIGNIFICANT INDICATION OF A MORE FAVORABLE ATTITUDE TOWARDS A PROPOSAL THAT HAS BEEN CONTROVERSIAL IN THE PAST.

PROSPECTS

21. THE RANGE OF OPTIONS BEING PRESENTED BY THE MONETARY
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COMMITTEE IS QUITE WIDE, AND THE REPORT PROVIDES NO HINT OF WHICH CHOICES ARE LIKELY TO BE MADE AT THE POLITICAL LEVEL. THERE IS NOT MUCH EXPECTATION IN COMMUNITY CIRCLES THAT THE JUNE 19 FINANCE COUNCIL WILL TAKE DECISIONS TO NARROW DOWN THESE OPTIONS, ALTHOUGH SOME INDICATIONS MAY APPEAR ABOUT THE DIRECTION IN WHICH HIGHER LEVEL THINKING IS MOVING. SOME SOURCES SUGGEST THAT REAL POLITICAL DECISIONS MAY BE DEFERRED ALSO BEYOND BREMEN.

MISSION COMMENT:

22. QUESTION WHICH MAY INTEREST US POLICYMAKERS IS WHETHER THE INCREASED MANAGEMENT OF EUROPEAN EXCHANGE RATES IMPLIED BY THESE ARRANGEMENTS IS LIKELY TO LEAD TO UNDESIRABLE EFFECTS ON GLOBAL ADJUSTMENT, FOR EXAMPLE BY THWARTING CHANGES IN THE DOLLAR EXCHANGE RATE NEEDED FOR BALANCE OF PAYMENTS ADJUSTMENT. THIS WILL DEPEND IN PART ON THE CHOICES MADE, PARTICULARLY BETWEEN THE EUA AND EFFECTIVE RATE VARIANTS OF OPTIONS B AND C, AS WELL AS THE EXTENT TO WHICH DOLLARS ARE USED IN INTERVENTIONS AIMED PRIMARILY AT GREATER INTRA-EUROPEAN STABILITY. MORE PROBLEMS COULD ARISE FROM THE EFFECTIVE RATE VARIANT IN THAT A "DOLLAR POLICY" IS IMPLICIT AND BUILT INTO DECISIONS ON ADJUSTMENTS OF TARGET RATES OF INDIVIDUAL COUNTRIES. IT IS POSSIBLE, FOR EXAMPLE, THAT SUCH DECISIONS, AIMED PRIMARILY AT MAINTAINING THE INTRA-EUROPEAN SYSTEM, COULD, OVER TIME, BE BIASED TOWARDS UNDERVALUATION OF EUROPEAN CURRENCIES RELATIVE TO THE DOLLAR. IT WOULD CLEARLY BE PREFERABLE TO MAINTAIN AS MUCH SEPARATION AS POSSIBLE BETWEEN ATTEMPTS TO STABILIZE INTRA-EUROPEAN RATES, AND THE DISTINCT QUESTION OF THE APPROPRIATE DEGREE OF FLEXIBILITY VIS-A-VIS THE DOLLAR.

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23. IN INFORMAL DISCUSSIONS OF THIS POINT WITH COMMISSION

SOURCES FAVORING THE EUA PIVOTED SYSTEM, IT HAS BEEN SUGGESTED TO US THAT IT WOULD BE HELPFUL FOR US OFFICIALS TO INDICATE US INTEREST IN THIS CHOICE. WASHINGTON AGENCIES MIGHT WISH TO CONSIDER WHETHER LOW-KEY AND INFORMAL SUGGESTIONS ALONG THESE LINES MIGHT BE WORTH-WHILE. IF THE QUESTION OF A DOLLAR POLICY CAN BE KEPT SEPARATE FROM PURELY INTRA-EUROPEAN STABILITY, IT SHOULD BE POSSIBLE TO PROTECT OUR INTERESTS ADEQUATELY. MOST EUROPEANS HERE REALIZE THAT ANY DOLLAR POLICY MUST BE CONDUCTED WITH THE ACQUIESCENCE AND FULL COOPERATION OF THE UNITED STATES. HINTON

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